

No. 47.212/22 June 2021

*Submitted for approval in the OGMS dated 26 - 27 July 2021*

## Report

### **on the approval of the proposal to maintain the 50.01707% share upon the distribution of the net profit as dividends for the year 2020, approved by OGMS Resolution no. 3/2021**

## SUMMARY

By the OGMS Resolution no. 3/2021, a gross dividend per share amounting to 8.14 lei was approved, determined based on the provisions of *G.O. no. 64 of 30 August 2001 on the distribution of profits in national companies and trading companies owned by the state or where the state is a majority shareholder, as well as the autonomous administrations* under the conditions of the application of the 50.01707% share to the distribution of profits as dividends. The distribution share provided in the revenue and expense budget of SNTGN Transgaz SA per 2020 approved by the OGMS Resolution no. 2/04.03.2020 is 50%.

**The total value of the dividends distributed from the profit of 2020 by the OGMS Resolution no. 3/2021, under the conditions of the application of a share of 50.01707% to the distribution of the net profit as dividends, is lei 95,839 thousand and the application of a 90% share to the distribution of the profit as dividends would imply the additional distribution to dividends of the amount of lei 76,648 thousand.**

The dividends due to the state budget substantiated by the Revenue and Expense Budget (REB) of TRANSGAZ for the year 2020, amounted to **lei 37,000 thousand**, and based on the results achieved in 2020 were approved by the OGMS resolution no. 3/2021, under the conditions of the application of a share of 50,01707% to the distribution of net profit as dividends, the amount of **lei 56,075 thousand** by lei **19,075 thousand** (152%) higher than the level estimated by the REB 2020.

On May 28, 2021, SNTGN Transgaz SA received and registered the letter of the General Secretariat of the Government by which the memorandum on the: ***The mandate of the representatives of the state in the General Meeting of Shareholders/Board of***

**Administration, as the case may be, to the national companies and trading companies owned by the state or where the state is a majority shareholder, as well as the autonomous administrations, in order to take the necessary measures to distribute a share of at least 90% of the net profit achieved in 2020 as dividends/payments to the state budget` proposing:**

*... in case the financial statements of 2020 have been approved by this date, we propose the mandate of the state representatives in the General Meeting of Shareholders/Board of Administration, **to reanalyse** and decide on the distribution of a share of at least 90% of the net profit of the year 2020 as dividends/payments to the state budget".*

The distribution of a share of at least 90% of the net profit achieved by SNTGN Transgaz SA in 2020 as dividends **has negative effects on Transgaz' ability to finance the strategic investment projects included in the TYNDP, approved by the National Energy Regulatory Authority,** including upon the achievement of:

- the approximately 3,200 km of gas transmission pipelines intended for the connection to the NTS of all localities in the country;
- the project "Development on the Romanian territory of the Southern Transmission Corridor for taking over the natural gas from the Black Sea shore" (Marea Neagră - Podișor);
- the projects proposed under the Three Seas Initiative and the ones that are under analysis;

and **may make it impossible for Transgaz to finance strategic development projects within the indebtedness limits imposed by the financing agreements.**

## **PROPOSAL**

**We submit for approval, pursuant to Art. 15.3 € of the Articles of Incorporation of SNTGN TRANSGAZ SA, updated, to maintain the share of 50.01707% upon the distribution of the net profit as dividends for the year 2020, approved by OGMS resolution no. 3/2021.**

In accordance with the provisions of art.111, paragraph (2), letter a) of Companies Law no. 31/1990, republished as subsequently amended and supplemented, as well as the provisions of art.15 paragraph (3) letter (e) of Transgaz' Articles of incorporation, the competence to set the dividend belongs to the company's General Meeting of Shareholders.

**The total value of dividends distributed from the profit of 2020 by OGMS resolution no. 3/2021, under the conditions of the application of a share of 50.01707% to the distribution of net profit as dividends, is lei 95,839 thousand and the application of a share of 90% to the distribution of the profit as dividends**

**would imply the additional distribution to dividends of the amount of lei 76,648 thousand.**

Transgaz is implementing an extensive investment program to redefine itself as a major gas transmission operator on the national and regional market, the provision of the financial resources for the implementation of projects in compliance with the budgetary constraints and rations imposed by financing contracts being a vital objective for ensuring the development of the company.

In order to finance the investment projects, **the company has so far contracted loans amounting to EUR 460 million**, of which it has so far drawn EUR 310 million and recorded on 31 December 2020 a debt ratio for the TRANSGAZ group of 3.52 determined as a ratio between net loans and EBITDA.

**The distribution of dividends in a share of more than 50% is a measure that will lead to a decrease in the company's ability to finance ongoing strategic investment projects, a measure that together with other measures recently ordered, respectively:**

- **the non-recognition in the regulated revenue of the expenditure with the natural monopoly tax amounting to lei 60 million/year;**
- **partial redistribution to the category of regulated revenue from domestic gas transmission of the income from the legacy contract for the Isaccea 3 - Negru Vodă 3 pipeline**

**will limit the company's ability to attract the financing source needed to make the planned investments and may lead to a significant adverse event that will not only raise the company's indebtedness and financing costs but give banks the right to impose restrictions with direct impact on the company and its ability to finance strategic investment projects.**

Through the Revenue and Expense Budget, the company substantiated for the period 2021-2023 investment expenses of lei 3.8 billion, of which lei 1.2 billion for 2021, for the achievement of these investments being budgeted in 2021, **attracting loans amounting to lei 370 million. The repayments related to loans contracted to finance the BRUA Phase I project, in 2021, are worth lei 72 million.**

**In accordance with the provisions of GO no. 26 of August 21, 2013 on *strengthening financial discipline at the level of economic operators in which the state or administrative-territorial units are sole or majority shareholders or directly or indirectly hold a majority stake*, in case of failures of approved investment financing sources the related commitments are reconsidered and all legal steps are taken to ensure that the reception of services, works and goods is carried out at the level of recalculated funding sources.**

## A. Sources of financing contracted by the Company to finance investments

On 31 December 2020, Transgaz had contracted and drawn the following loans used for the investment activity:

- **The equivalent of EUR 200 million for the financing of the project `Development on the Romanian territory of the National Gas Transmission System on the Bulgaria - Romania - Hungary - Austria corridor` (BRUA) Phase I:**
  - Loan agreement no. 49149 concluded on 23.02.2018 with the European Bank for Reconstruction and Development (**EBRD**), for the amount of 277,938 million lei, representing the equivalent of **EUR 60 million**, with drawdown and repayment in Lei, maturity of 15 years with grace period for repayment of the principal for 3 years and fixed interest in lei.
  - Loan agreement no.83644EN concluded on 27.10.2017 with the European Investment Bank (**EIB**) for the amount of **EUR 50 million**, fixed interest, maturity 15 years, grace period of 3 years upon repayment of the principal.
  - Loan agreement no.88825RO concluded on 14.12.2017 with the European Investment Bank (**EIB**), for the amount of **EUR 50 million**, with drawdown in Lei or EUR (at the choice of the Company), with fixed or variable interest (at the choice of the Company), maturity 15 years, grace period of 3 years upon repayment of principal.
  - Loan agreement no. 20190409029 concluded on 24.04.2019 with Banca Comercială Română for the amount of lei 186 million, the equivalent of **EUR 40 million**, with drawdown and repayment in lei, maturity 15 years, grace period for the repayment of the principal of 3 years, variable interest;
- **lei 360 million** to finance the investment projects **`Developments of the National Transmission System in the North East of Romania (Onești - Gherăești - Lețcani)`** and **`Interconnection of the National Transmission System with the international gas transmission pipeline T1 and reverse flow at Isaccea Phase II (Onești - Siliștea)`**:
  - Loan agreement no.20201028056 concluded on 29.10.2020 with Banca Comercială Română for the amount of 360 million lei for a period of 13 years;

At the same time, the Company has concluded two loan agreements in order to finance the project **`Development on the Romanian territory of the Southern Transmission Corridor for taking over gas from the Black Sea shore` (Marea Neagră - Podișor):**

- Loan agreement no. 88417RO concluded on 17.12.2018 with the European Investment Bank (**EIB**), for the amount of **EUR 50 million**, maturity 15 years, grace period of 3 years upon repayment of the principal. The contract being of open type allows the use of the loan in Lei or in EUR (at the choice of the Company), with fixed or variable interest (at the choice of the Company).

- - A second loan agreement with the EIB for the amount of **EUR 100 million**, with the same characteristics as the first, was concluded on 24 January 2019, maturity 15 years, grace period of 3 years upon the repayment of the principal,

and concluded a letter of mandate with the European Bank for Reconstruction and Development (**EBRD**) to ensure the necessary formalities for the conclusion of a long-term loan in LEI, equivalent to **EUR 100 million**, to finance the project "**Development on the Romanian territory of the Southern Transmission Corridor for taking over gas from the Black Sea shore**" (**Marea Neagră - Podișor**).

Transgaz is the guarantor of the loan contracted by the Moldovan subsidiary on 24 January 2019 with the European Investment Bank for the amount of **EUR 38 million**, maturity 15 years, grace period of 3 years to repay the principal, in order to finance the project "Construction of the interconnection pipeline of the national gas transmission system of the Republic of Moldova with the gas transmission system of the European Union, through Romania, on the Ungheni - Chisinau direction".

The company signed on 15 July 2020, following a competitive negotiation procedure, a contract with Banca Transilvania through which it benefits from a credit line of lei 300 million for a period of 2 years, meant to cover the necessary working capital, the repayment of the credit line of lei **300,000,000** being due in the course of 2022.

In order to achieve the strategic investment projects, TRANSGAZ has attracted significant non-refundable funds:

- For the BRUA project Phase 1, SNTGN Transgaz SA managed to obtain two grants from the European Union through the National Agency for Innovation and Networks (INEA). The first grant, in the amount of **EUR 1,519,342**, representing **50%** of the estimated eligible expenses, was granted on 13.05.2015 for the financing of the design of the three compressor stations within the projects (Podișor, Bibești and Jupa) and the second grant, amounting to **EUR 179,320,400** representing **40%** of the estimated eligible expenses, was granted on 09.09.2017 for the financing of the works for the implementation of the BRUA project Phase I;
- For the financing of the project "**NTS developments in the North-East of Romania to improve gas supply in the area and to ensure gas transmission capacities towards the Republic of Moldova**" the Financing Contract no 226 was signed with the Ministry of European Funds AM POIM with the subject of granting non—refundable financing for the implementation of the project code MYSMIS 2014 - 122972 „NTS developments in the North-East of Romania to improve gas supply in the area and to ensure gas transmission capacities towards the Republic of Moldova" within the specific Objective 8.2 – Increasing the interconnectivity of the National gas Transmission System with other

neighbouring states. The amount of the non-refundable financing is of lei **214,496,026.71**, namely **32.53%** of the value of the eligible expenses.

**Through the financing contracts concluded a leverage level (determined as a ration between the total net debt and EBITDA) that does not exceed the following limits:**

- **5.5** in the year 2020;
- **4** in the years 2021 – 2022;
- **3.5** in 2023 and subsequently.

**At the same time, the financing agreements provide for the `interest rate hedging` indicator and require the borrower to ensure that for each relevant period the ratio between the Operating Cash Flow and the Financing Fees will not be less than 3.**

**The distribution of additional dividends at the rate of 50% will determine the company to finance the investment plan by resorting to additional loans with a negative impact on the level of indebtedness and the indicator `interest rate coverage`.**

**Exceeding the indebtedness conditions agreed with financial institutions will determine the premises of a significant adverse event that will not only raise the leverage and financing costs of the company but will entitle banks to impose restrictions with a direct impact on the company and the ability to finance strategic investment projects.**

## **B. LETTER OF EXPECTATIONS NECESSARY FOR THE SELECTION AND EVALUATION OF THE MEMBERS OF THE BOARD OF ADMINISTRATION/DIRECTORS FOR THE PERIOD 2021-2025 AT SNTGN TRANSGAZ SA MEDIAŞ**

We mention the fact that by the `LETTER OF EXPECTATIONS NECESSARY FOR THE SELECTION AND EVALUATION OF THE MEMBERS OF THE BOARD OF ADMINISTRATION/DIRECTORS FOR THE PERIOD 2021-2025 AT SNTGN TRANSGAZ SA MEDIAŞ`, transmitted by SGG Order no. 797/10.05.2021, by the majority shareholder General Secretariat of the Government, in consultation with other shareholders, and posted on the website of the public *supervisory* authority (SGG) and the company, are presented the wishes/expectations of shareholders on `Policy on dividends and payments from the net profit applicable to SNTGN TRANSGAZ SA `(Chapter VI) and respectively `Investment policy applicable to TRANSGAZ `(Chapter VII), as follows:

### **THE POLICY ON DIVIDENDS AND PAYMENTS FROM THE NET PROFIT APPLICABLE TO SNTGN TRANSGAZ SA**

*The Romanian State as the majority shareholder, through the General Secretariat of the Government, but also the other shareholders, will pursue the long-term maximization of*

*the company's value and implicitly of the dividend value. **The dividend policy will be a responsible, prudent and predictable one appropriate to the specific situation of the company and respecting its investment development needs. The main objective of the state shareholder is to ensure a balance between the dividend policy and that of ensuring the necessary funds for the investment programs undertaken by the company for development and modernization.***

*Currently GEO no. 64/2001 on the distribution of profit to national companies and trading companies with full or majority state share capital, as well as to autonomous administrations, regulates the distribution of a share of at least 50% of profit as payment /dividend to the state budget or local budget.*

*The administrators of SNTGN TRANSGAZ S.A. are expected to develop, approve and publish the `Dividend Distribution Policy`, as required by the New Corporate Governance Code of the BSE.*

***It is preferable to distribute as much of the profit as possible, but only if the sources of financing necessary to fulfil the investment plan have been identified under the conditions of optimal financing costs and a reasonable degree of indebtedness.`***

#### **INVESTMENT POLICY APPLICABLE TO TRANSGAZ**

*Romania is facing a historic opportunity. In the period 2021-2027, the EU Multiannual Financial Framework and the Next Generation EU program will bring our country almost 80 billion Euro, which will be used for investments in infrastructure, education, health, agriculture, environment or energy, as well as for modernization of large public systems. The Recovery and Resilience Mechanism (MRR) is a new instrument proposed by the European Commission on 28 May 2020 as a European instrument for economic recovery following the crisis caused by the new coronavirus. From the general envelope, Romania would benefit from an allocation of approximately 30.5 billion Euro as grants - 13.8 billion Euro and loans - 16.7 billion Euro.*

*These funds will support the recovery and economic transformation of Romania and therefore the public enterprises in which the state is the majority shareholder have to carry out sustainable investment programs, in order to develop their long-term activity, considering the current market opportunities and socio-economic trends. The Government expects public enterprises to focus responsibly on research, development and innovation, as well as on investments in the green transition; digital transformation; smart, sustainable and inclusive economic growth.*

***In the context of profiling the gas supply sources, respectively, the natural gas from the Caspian Sea region and those discovered in the Black Sea, the investments proposed by SNTGN TRANSGAZ SA in the Development Plan of the National Gas Transmission System for the period 2020 - 2029, plan approved by ANRE by Decision no. 2210/25.11.2020, are strategic investments for the***

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**development of the gas transmission infrastructure in Romania for ensuring energy security and for the compliance of the system with the requirements of European regulations in the field.**

*Empowering the importance of the company both as an engine of activities in the national economy and as a vector of economic growth of the country, through its role in developing the energy sector and transforming Romania into an energy power of Europe, the Romanian State and SNTGN TRANSGAZ SA started one of the largest and most important programs for the development of the gas transmission infrastructure in Romania in the last 20 years, with investment projects estimated at over 4 billion euros. (BRUA project phase 2; Southern Corridor, Developments in the NE area of Romania, New developments of the NTS in order to take over the gas from the Black Sea shore, Interconnection of the National Natural Gas Transmission System with similar systems in Serbia and Ukraine, etc.).*

*The proposed investments aim to result in:*

- *strengthening the role of SNTGN TRANSGAZ S.A. as a natural gas carrier on the European and national energy market, as a result of EU requirements for the development of NTS interconnection with similar natural gas transmission systems in neighbouring countries and the potential for exploitation of natural gas fields discovered in the Black Sea;*
- *interconnecting the NTS with similar transmission systems in neighbouring countries and reverse flow;*
- *creating natural gas transmission routes at regional level for the transmission of natural gas from various new supply sources;*
- *creating the infrastructure necessary for the takeover and transport of natural gas from the offshore perimeters in the Black Sea in order to capitalize on the Romanian market and other markets in the region;*
- *expanding natural gas transmission infrastructure to improve the supply of natural gas to deficient areas and ensuring third party access;*
- *developing the NTS in accordance with the provisions of Law no. 123/2012, with subsequent amendments and completions, investments to ensure the expansion of the National Transmission System in areas with newly established distribution systems.*
- *creating an intelligent natural gas transmission network by implementing high-performance information systems;*
- *creating an integrated single market at EU level.*

*Given the complex and extensive investment program, the public supervisory authority wants the administrators of SNTGN TRANSGAZ S.A. **to consider business development by optimizing the absorption of European funds and creating an efficient and flexible financing structure.***



*Following the proposed desideratum, the public supervisory authority and the shareholders expect and want the administrators and management of the company to act responsibly, prudently and transparently towards all stakeholders, **for the continuity of operational efficiency**, performance optimization and sustainable development of the company.*

**The company's management strategy in the period 2021-2025 aims both to continue the actions of strategic development and efficiency of the company and new actions determined by the need to align with the provisions of the European Green Deal, to establish and implement a strategy to upgrade and adapt existing natural gas transmission infrastructure for the use of Hydrogen and other green gases for decarbonisation, the development of research on the possibility of accepting the hydrogen mix in the NTS and ways to input it into the NTS.**

### **C. Major investment projects for the development of the gas transmission infrastructure in Romania**

At the same time, considering the fulfilment of the shareholders' wishes, a sustainable development of the natural gas transmission infrastructure in Romania implies an extensive investment program that would allow the alignment of the National Transport System (NTS) to the transport and operation requirements of the European natural gas transmission network.

In identifying the projects needed to be developed in the National Gas Transmission System, we started from the main requirements that it must provide in the current dynamics of the regional natural gas market. Given the latest developments and trends in the field of natural gas transmission routes at European level, it is clear the profiling of two important new sources of natural gas supply: natural gas from the Caspian Sea region and those discovered in the Black Sea.

Against the background of the significant dependence of the European energy market on the import of energy resources from Russia and the Middle East, the role of natural gas reserves discovered in the Black Sea is undoubtedly major for Romania's energy security, to strengthen Romania's position as an important player in the EU as energy producer and exporter, to include the country in Europe's major natural gas transmission routes and to increase the country's economic well-being in the coming decades.

In this context, it is very important for Transgaz to implement the projects in a very short time, in order to connect the central European markets to those resources and to redefine itself as an important natural gas transmission operator.

**By ensuring the link between different sources of gas supply and the European market, the mentioned investment projects contribute to the achievement of the**

**European Union's desideratum, the main benefits of their realization can be summarized as follows:**

- **Integration of the gas market and interoperability of gas transmission systems in the region;**
- **Gas price convergence in the region;**
- **Elimination of natural gas congestion in the direction of Bulgaria - Romania - Hungary;**
- **Increasing the flexibility of the European gas transmission system by creating bi-directional interconnections;**
- **By interconnecting the Bulgaria - Romania - Hungary - Austria corridor with the Black Sea, Romania and the European Union will practically open access to a new source of natural gas;**
- **Increasing competition in the European gas market by diversifying sources, transport routes and companies active in this region;**
- **Increasing security of gas supply;**
- **Reducing the dependence on natural gas imports from Russia;**
- **Driving the development of renewable energy in the region (especially wind and solar energy) given the possibility of using natural gas as a reserve for renewable energy, which leads to a significant increase in the sustainability of the proposed projects.**

The progress made towards the implementation of the major investment projects of SNTGN Transgaz SA requires the parallel implementation of the steps to ensure the financing of the 10-year National Transmission System Development Plan. In the years 2021-2023, the aim is to attract funds from the banking system to complete the financing needs.

Taking into account the prospect of materializing new projects aimed at diversifying natural gas transmission routes from the Caspian Sea Region to Central Europe, as well as new sources of natural gas in the offshore perimeters of the Black Sea, Transgaz aims to build a new corridor of natural gas transmission to ensure the transport of volumes of natural gas related to these sources on the Romanian and European market and the possibility of permanent bidirectional flow on the interconnections with Bulgaria and Hungary.

**The development program of the National Gas Transmission System for the next 10 years, includes both major strategic investment projects, designed to reconfigure the gas transmission network, presented below:**

1. Development on the Romanian territory of the National Gas Transmission System on the Bulgaria - Romania - Hungary - Austria Corridor (BRUA - phase 2) - estimated value lei **365.1 Mil**

2. Development on the Romanian territory of the Southern Transport Corridor for taking over the natural gas from the Black Sea coast - estimated value <b>Lei 1,390.0 Mil.;</b>
3. Developments of NTS in the North-East area of Romania in order to improve the natural gas supply of the area as well as to ensure transmission capacities to/from the Republic of Moldova - estimated value <b>Lei 853.8 Mil.;</b>
4. Amplification of the bidirectional natural gas transmission corridor Bulgaria - Romania - Hungary - Austria (BRUA phase 3) - estimated value <b>Lei 2,597.0 Mil.;</b>
5. Project on new developments of the NTS in order to take over the gas from the Black Sea coast
6. Interconnection Romania - Serbia- interconnection of the National Natural Gas Transmission System with the similar natural gas transmission system in Serbia - estimated value <b>Lei 275.5 Mil.;</b>
7. GMS Negru Vodă 1- estimated value <b>Lei 65.6 Mil.;</b>
8. Interconnection of the National Natural Gas Transmission System with the natural gas transmission system in Ukraine, on the direction Gherăești - Siret - estimated value of <b>Lei 612.5 Mil.</b>
9. Development of natural gas transmission infrastructure in the North-West area of Romania - estimated value <b>Lei 1,984.3 Mil.</b>
10. Increasing the natural gas transmission capacity of the Romania - Bulgaria interconnection, on the Giurgiu - Ruse direction - estimated value <b>Lei 253, 8 Mil.</b>
11. Eastring-România – estimated value <b>Lei 8,103.9 Mil.</b>
12. Monitoring, control and data acquisition system for cathodic protection stations related to the National Natural Gas Transmission System - estimated value <b>Lei 39.2 Mil.</b>
13. Development of the SCADA system for the National Natural Gas Transmission System - estimated value <b>Lei 26.9 Mil.</b>
14. Modernization of GMS Isaccea 2 and Negru Voda 2 in order to achieve the bidirectional flow on the T2 pipeline - estimated value <b>Lei 130.6 Mil.</b>
15. Modernization of GMS Isaccea 3 and Negru Voda 3 in order to achieve the bidirectional flow on the T3 pipeline - estimated value <b>Lei 130.6 Mil.</b>
16. NTS interconnection with the LNG Terminal located on the Black Sea coast - estimated value <b>Lei 96 Mil.</b>

**and the Program for Upgrading and Development of Investments in the NTS (PMDI), consisting in investment works for the upgrading and development of the national gas transmission infrastructure, its extension, and the connection of the localities to the NTS. These works also include the realization of approx. 3,200 km of high-pressure gas transmission pipelines, destined for the connection to the NTS of all the localities of the country, investments with a strong economic and social impact on the sustainable development of the local communities and of Romania.**

The PMDI for 2021 and the estimates for 2022-2023 included investments in the NTS developments in accordance with the provisions of the Electricity and Gas Law no. 123/2012, as subsequently amended and supplemented, investments to ensure the

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expansion of the National Transmission System in areas with newly established distribution systems.

**According to Art. 151 of Law 123/2012, as further amended and supplemented, the transmission operator has the obligation to finance the extension works in economic efficiency conditions. According to Art. 130 (e1) and (e2) of Law 123/2012, as further amended and supplemented, the transmission operator has the obligation to extend the NTS for the supply of tourist resorts of national and local interest located at a maximum distance of 25 km from the NTS connection point.**

**Currently, there are 2,396 territorial administrative units (ATU) or Intercommunity Development Associations (ADI) letters registered at SNTGN TRANSGAZ SA requesting the issuance of the Technical Approval in Principle (ATP) / Technical Approval for Connection (ATR) , regarding the technical solution for connection to the National Transmission System (NTS), for the preparation of the Feasibility Study (FS) necessary for the NTS concession or distribution service concession procedure. 2,354 requests were answered within the legal term, the other 42 requests being under analysis at TRANSGAZ.**

**The natural gas distribution systems can be connected in two ways as follows:**

- a) At the existing NTS, according to ANRE Order 172/2020;**
- b) For NTS extensions of the NTS, according to the provisions of the Electricity and Gas Law 123/2012.**

**All these extensions of NTS will be made in economic efficiency conditions, in compliance with the legislation in the field. For the extension of the NTS, depending on the ATU / ADI / Concessionaires requests, TRANSGAZ starts Economic and Technical Studies (ETS) / Feasibility Studies (FS) and based on their results the necessary documentation is prepared to include the objective as a position in the Modernization and Investment Development Plan. (PMDI).**

**As a result of these requests, it can be seen that the provision of funding sources for the projects mentioned above will have a positive impact on the standard of living of the population, the degree of development of ATUs, as well as increasing safety in the operation and functioning of the National Transmission System.**

**By these pipelines, natural gas may be supplied to approximately 432,760 household consumers and 7,900 public institutions (schools, town halls, dispensaries, cultural centres, medical offices, economic agents, etc.) .**

**The main investment projects in PMDI, with a financing need of 1,041.18 million Lei and the 10 TESs, approved in the Economic and Technical Committee (CTE), with a financing need of 171 million Lei are as follows:**

No.	PMDI project	Estimated completion time	Estimated value, without VAT Million Lei
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1	DN 300 <b>Mintia - Brad - Ștei</b> gas transmission pipeline, <b>stage II, Brad - Ștei</b>	<b>SEM II 2024</b>	<b>48</b>
2	DN 500, <b>Craiova - Segarcea - Calafat</b> gas transmission pipeline, <b>stage II, the Segarcea-Băilești-Calafat section</b>	<b>SEM I 2023</b>	<b>150</b>
3	DN 250 <b>Câmpulung Moldovenesc - Vatra Dornei</b> gas transmission pipeline ( <b>Pojorâta - Vatra Dornei section</b> )	<b>SEM.II.2021</b>	<b>16.06</b>
4	DN 250 <b>Techirghiol - Ovidiu</b> gas transmission pipeline	<b>SEM. I 2022</b>	<b>25.56</b>
5	<b>Sighetul Marmației - Viseul De Sus - Borșa</b> gas transmission pipeline <b>WORK DECLARED OF NATIONAL INTEREST</b>	<b>SEM. II. 2022</b>	<b>145.9</b>
6	<b>Târgu Neamț - Bălățești</b> gas transmission pipeline	<b>SEM II 2022</b>	<b>54.2</b>
7	Gas transmission pipeline for <b>supplying the Deta - Denta - Moravița consumption area</b>	<b>SEM II 2023</b>	<b>41</b>
8	<b>Vernești - Mărăcineni - Posta Călnău</b> gas transmission pipeline, <b>Buzău County, Stage 1 Vernești - Mărăcineni</b>	<b>SEM II 2021</b>	<b>9</b>
9	<b>Vernești - Mărăcineni - Posta Călnău</b> gas transmission pipeline, <b>Buzău County, Stage II Mărăcineni - Posta Călnău</b>	<b>SEM II 2022</b>	<b>15</b>
10	<b>Prunișor - Orșova - Băile Herculane - Jupa</b> gas transmission pipeline <b>WORK DECLARED OF NATIONAL INTEREST</b>	<b>SEM. II 2024</b>	<b>200</b>
11	<b>Ghergheasa - Foçșani</b> gas transmission pipeline <b>WORK DECLARED OF NATIONAL INTEREST</b>	<b>SEM. I 2024</b>	<b>53</b>
12	<b>LUGAȘU-HUEDIN</b> gas transmission pipeline	<b>SEM. I 2024</b>	<b>55.8</b>
13	<b>GHERCEȘTI-JITARU</b> gas transmission pipeline	<b>SEM II 2024</b>	<b>208.44</b>
14	<b>Plătărești - Bălăceanca</b> gas transmission pipeline	<b>SEM II 2022</b>	<b>31.8</b>
15	<b>MRS Timișoara I - MRS Timișoara III</b> gas transmission pipeline	<b>2023</b>	<b>35.42</b>
<b>TOTAL NECESSARY FINANCING SOURCES -MILLION LEI</b>			<b>1,041.18</b>

No.	Technical and Economic Study	Estimated value, without VAT Million Lei
1	<b>Gas supply to Borsec</b>	<b>6.2</b>
2	<b>Gas supply to Horezu</b>	<b>21.4</b>
3	<b>Gas supply to 3 localities: Caianu Mic, Spermezeu, Tarlisua, located on Tibles Valley, Bistrita-Nasaud County</b>	<b>16.0</b>
4	<b>Gas supply to Vama Buzaului tourist resort , Brasov County and to Intorsura Buzaului , Barcani and Sita Buzaului, Covasna County</b>	<b>15.5</b>
5	<b>Natural gas supply to five localities: Brancovenesti , Rusii Munti, Alunis, Vatava and Deda located in the Upper Mures Valley, Mures County</b>	<b>23.6</b>
6	<b>Gas supply to 18 localities: Livezile, Josenii Bargaului, Prundu Bargaului, Tiha Bargaului, Bistrita Bargaului,</b>	<b>43.8</b>

Report on the approval of the proposal to maintain the 50.01707% share upon the distribution of the net profit as dividends for the year 2020, approved by OGMS Resolution no 3/2021

No.	Technical and Economic Study	Estimated value, without VAT Million Lei
	<b>Lunca Ilvei, Ilva Mare, Magura Ilvei, Poiana Ilvei, Ilva Mica, Lesu, Sant, Rodna, Maieru, Sangeorz Bai, Feldru, Rebra and Rebrisoara, located on Bargau Valley, Bistrita-Nasaud County</b>	
<b>7</b>	<b>Huedin - Belis gas transmission pipeline</b>	<b>18.2</b>
<b>8</b>	<b>Gas supply to 9 localities: Gugesti, Dumbraveni, Popesti, Urechesti, Obrejita, Sihlea, Tamboesti, Bordesti and Slobozia Bradului, Vrancea county</b>	<b>6,0</b>
<b>9</b>	<b>Gas supply to 6 localities: Intorsura Buzaului, Sita Buzaului in Covasna County and Vama Buzaului, Teliu si Budila in Brasov County, within the Ciucas Gaz Project Association</b>	<b>13.9</b>
<b>10</b>	<b>Gas supply to Gurghiu commune, Mures County</b>	<b>6.4</b>
	<b>TOTAL NECESSARY SOURCES OF FINANCING - MIL.LEI</b>	<b>171</b>

### Shares in operators in the domain in Europe

On 27.02.2018 the Public Property Agency subordinated to the Ministry of Economy and Infrastructure of the Republic of Moldova made public the awarding by Eurotransgaz SRL from Chisinau of the investment tender for the privatization of the State Enterprise Vestmoldtransgaz as a unique enterprise. On 28.12.2017 Eurotransgaz SRL, a company established in Chisinau, having SNTGN Transgaz SA as sole shareholder, submitted a binding bid for the full acquisition of Vestmoldtransgaz, the Republic of Moldova.

On 6 September 2018, the representatives of Eurotransgaz SRL (subsidiary of SNTGN Transgaz SA) together with the Minister of Economy and Infrastructure of the Republic of Moldova and the representative of the Public Property Agency in Chisinau, signed the Certificate of completion of the privatization process (which also involved the transfer of property).

Over the following two years Eurotransgaz Ltd. developed an investment process in the Republic of Moldova, which included the construction of a pipeline between Ungheni and Chisinau as well and facilities necessary for the operation of the pipeline in efficiency, safety and competitiveness conditions, also providing alternative supply routes and sources for the regional market. In this context **TRANSGAZ ensured the financing source required for the acquisition of shares in S.E. Vestmoldtransgaz and the coverage of the investment needs regarding the construction of the Ungheni-Chișinău gas transmission pipeline.**

The estimated value of the Ungheni - Chisinau Investment Project is **92.80 million Euro** including the VAT and to date, Vestmoldtransgaz has been financed with the amount of **75.8 million Euro** for the Ungheni - Chisinau Project investment expenses as well as other administrative and operational costs, out of which:

- Transgaz funds : **50.36 million Euro**;
- EIB funds: **25.43 million Euro** (out of EIB loan of 38 million Euro).

Transgaz successfully participated, through its subsidiary in the Republic of Moldova, in the accomplishment of the Ungheni-Chisinau Investment Project, declared of national interest in the Republic of Moldova, by Law 105/09.06.2017, which consisted in the construction of a 120 km gas transmission pipeline, three natural gas delivery stations (two in Chisinau and one in Ungheni, the Semeni locality) and the equipping of the dispatching and management centre at Ghidighici . The natural gas transmission network on the Ungheni – Chisinau route represents the second stage of the Iași – Ungheni – Chisinau interconnection project.

The Ungheni-Chisinau gas pipeline was completed on 24 July 2020, one month earlier than established under the privatization contract. The construction of the Ungheni-Chisinau pipeline contributes to the modernization and development of the existing energy infrastructure, increasing the efficiency of the energy sector and enhancing the sustainable development of the national economy of Moldova, creating a transparent and competitive energy market, connected with the European energy market.

#### **D. The regulatory framework for the natural gas transmission activity limits the company's ability to generate an internal source of financing**

The main object of activity of TRANSGAZ is ***Transmission through pipelines*** - activity defined by law as the activity conducted for the circulation of natural gas through the National Gas Transmission System (NTS) or through other transmission systems.

The gas transmission activity is a public service of national interest and is included in the regulated segment of the domestic gas market. The transmission service is provided under a natural monopoly regime based on a tariff established by ANRE. The gas transmission activity is regulated by the National Energy Regulatory Authority (ANRE).

According to the methodology for establishing the regulated revenue, transmission operator cost savings in a gas year as well as the additional revenue obtained in a gas year reduce the regulated revenue approved in the following gas years . In other words, the more efficient the company is in reducing costs or in obtaining revenue from the transmission activity above the level approved by ANRE, the lower the revenue from the natural gas transmission activity in the following gas years.

According to ANRE Order 41 of 15 March 2019 on the approval of the Methodology for setting the regulated tariffs for gas transmission services when determining the annual regulated revenue, the following are also taken into account:

- The correction component of the total revenue for the previous years;
- The correction component of the technological consumption for the previous years;
- The component for the re-distribution of the economic efficiency increase achieved by the transmission operator during a regulatory period (savings obtained by the transmission operator regarding some cost elements compared to the levels approved by ANRE) is kept by the operator and is aggregated at the end of that period and then is completely transferred to the transmission system users by linearization during the following regulatory period by the reducing of the regulated revenue with these savings. In accordance with the applicable laws, during the third regulatory period (2012-2019) the efficiency increase was maintained entirely by the operator over a period of five years, and, starting with year 1 (2019-2020) of the fourth regulatory period (2019-2024), it began the full transfer to the transmission system users by linearization by reducing the regulated revenue with these savings;
- The efficiency increase achieved by the TSO starting with the fourth regulatory period (2019-2024) will be 60% transferred to the gas consumers, and 40% retained by the TSO starting with year 1 (2024-2025) of the fifth regulatory period (2024-2029);
- The non - recognition in the regulated revenue of the monopoly tax .

***All these provisions of the methodology determine a reduction of the transmission revenue and implicitly of the company's capacity to internally generate the necessary resources to finance the investment plan.***

***Considering the impact the increase of the net profit distribution share as dividends has on the degree of indebtedness of the company, which can reach high levels in 2021-2023 even in the conditions of applying a 50% net profit share, we consider it justified to maintain a 50% net profit distribution share as dividends for 2020.***

**The distribution of a share of at least 90% of the net profit of 2020 as dividends will negatively influence the company's activity, by decreasing liquidity and increasing its indebtedness. The exceeding the indebtedness conditions agreed with financial institutions will create the premises of a significant adverse event, which will not only raise the company's indebtedness and financing costs but will also give banks the right to impose restrictions with a direct impact on the company and the ability to finance strategic investment projects.**



***The net profit distribution share as dividends could be increased, without having a major impact on the company's indicators, once the strategic investment objectives are put into operation and the degree of indebtedness of the company are reduced.***

***If the distribution as dividends of a 50% 2020 net profit share is not maintained, TRANSGAZ's activity will be affected due to the diminished capacity of the company to finance investment projects included in the NTS Development Plan and decreased capacity to finance the investment works regarding gas supply to approximately 432,760 household consumers and 7,900 public institutions (schools, town halls, dispensaries, cultural centres, medical offices, economic agents, etc.).***

Through the 2020 Revenue and Expense Budget of TRANSGAZ , approved by the OGMS Resolution 2/4 April 2020, dividends due to the state budget amounting to **37,000** thousand lei were substantiated, and based on the results obtained in 2020, OGMS Resolution 3/2021 approved, conditional on applying a 50% net profit distribution share as dividends, a value of **56,075** thousand lei, higher by **19,075** thousand lei (152%) than the level estimated in the 2020 REB.

***Considering the above, reanalyzing the provisions of the Memorandum on: The mandate of the representatives of the state in the General Meeting of Shareholders/Board of Administration, as the case may be, to the national companies and trading companies owned by the state or where the state is a majority shareholder, as well as the autonomous administrations, in order to take the necessary measures to distribute a share of at least 90% of the net profit achieved in 2020 as dividends/payments to the state budget, we propose the approval of the maintaining the 50.01707% share for the distribution of the net profit as dividends for year 2020, approved by the OGMS Resolution 3/2021.***

**Chairman of the Board of Directors,  
Petru Ion Văduva**